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SHELL OIL COMPANY

Annual Report for 1955

SHELL OIL COMPANY

1955 Annual Report

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SHELL OIL COMPANY

50 WEST 50th STREET • NEW YORK 20, N. Y.

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Treasurer, New York, N. Y.

A. A. BUZZI
Controller, New York, N. Y.

J. A. HORNER
Secretary, New York, N. Y.

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1 Sansome Street, San Francisco 20, Calif.

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Notice of change of shareholder's address should be sent to one of the above transfer agents.

SHELL CHEMICAL CORPORATION

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Vice President, New York

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Officers

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Secretary, New York

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Officers

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President

D. F. SEARS
Vice President, Houston

P. H. SWINCHATT
Vice President, New York

C. C. COMBS
Vice President, Treasurer, Houston

W. J. WILLIAMSON
Secretary, Houston

Executive Offices

SHELL OIL COMPANY	New York, N. Y.
SHELL CHEMICAL CORPORATION	New York, N. Y.
SHELL DEVELOPMENT COMPANY	New York, N. Y.
SHELL PIPE LINE CORPORATION	Houston, Texas
SHELL OIL COMPANY OF CANADA, LTD.	Toronto, Canada

Headquarters Offices

MARKETING DIVISIONS—REFINED PRODUCTS AND CHEMICALS

ALBANY, N. Y.
ATLANTA, GA.
BALTIMORE, MD.
BOSTON, MASS.
CHICAGO, ILL.
CLEVELAND, O.
DETROIT, MICH.
HONOLULU, HAWAII
INDIANAPOLIS, IND.
KOKOMO, IND.
LOS ANGELES, CALIF.
MINNEAPOLIS, MINN.
MONTREAL, CANADA
NEW ORLEANS, LA.
NEW YORK, N. Y.
PORTLAND, ORE.
SACRAMENTO, CALIF.
ST. LOUIS, MO.
SAN FRANCISCO, CALIF.
SEATTLE, WASH.
TORONTO, CANADA
TORRANCE, CALIF.
VANCOUVER, CANADA

EXPLORATION AND PRODUCTION AREAS

CALGARY, CANADA
DENVER, COLO.
HOUSTON, TEXAS
LOS ANGELES, CALIF.
MIDLAND, TEXAS
NEW ORLEANS, LA.
TULSA, OKLA.

Refineries and Chemical Plants

ANACORTES, WASH.
DENVER, COLO.
DOMINGUEZ, CALIF.
HOUSTON, TEXAS
MARTINEZ, CALIF.
MONTREAL, CANADA
NORCO, LA.
SHELL POINT, CALIF.
TORRANCE, CALIF.
VANCOUVER, CANADA
VENTURA, CALIF.
WILMINGTON, CALIF.
WOOD RIVER, ILL.

Research Laboratories

DENVER, COLO.
EMERYVILLE, CALIF.
HOUSTON, TEXAS
MARTINEZ, CALIF.
MODESTO, CALIF.
TORRANCE, CALIF.
WOOD RIVER, ILL.

Highlights

	1955	1954
FINANCIAL		
Sales of Products and Other Revenues	$1,484,069,000	$1,312,060,000
Net Income	$125,532,000	$121,127,000
Net Income per Share	$4.56	$4.41
Cash Dividends Paid per Share	$2.00	$1.87½
Cash Income (net income plus write-offs)	$314,561,000	$276,354,000
Net Working Capital at End of Year	$231,255,000	$178,580,000
Cash and Government Securities at End of Year:		
Available for general purposes	$96,014,000	$56,714,000
For federal income taxes	$63,500,000	$60,000,000
Long Term Debt at End of Year	$201,457,000	$137,118,000
Capital Expenditures	$271,347,000	$236,940,000
OPERATING		
Number of Wells Drilled	899	996
Net Crude Oil Produced—Barrels	101,581,000	97,694,000
Crude Oil Intake — Barrels	168,896,000	157,262,000
Refined Products Sold — Barrels	198,216,000	178,763,000
Chemical Products Sold — Short Tons	943,000	732,000
Number of Employees at End of Year	38,845	35,275
Salaries and Wages Paid	$228,662,000	$199,022,000

SHELL OIL COMPANY
50 WEST 50TH STREET
NEW YORK 20, N. Y.

March 14, 1956

To the Shareholders:

The year 1955 witnessed a marked improvement in the general economy of the nation. Along with this, overall demand for petroleum products resulting from greater industrial activity was approximately 8% over 1954, exceeding earlier forecasts.

Sales of the Company's products increased in line with the overall growth in demand, thereby increasing revenue to $1,484,069,000 in 1955; the highest point in our history. Consolidated net income after taxes was $125,532,000, or $4.56 a share, on the 27,533,076 shares outstanding at year-end. This compares with $121,127,000 for 1954. Included in the 1955 net income is a non-recurring profit of $6,115,000 from the sale of "Shellane" marketing assets, referred to in the accompanying report. The net income exclusive of the non-recurring profit was $119,417,000, which is slightly less than the previous year. This decline in the face of an appreciably higher gross income is attributable to a combination of a sharp rise in depreciation and amortization charges and an increase in operating costs, the former resulting from the substantial additions to plant completed during the year, greater drilling activity and amortization of the very large investment in Gulf Coast offshore oil and gas acreage. It is the Company's practice to write off intangible drilling costs currently against income and to amortize lease acquisition costs over the term of the lease (or a maximum of five years) until production is established. On account of this and because of the increasingly heavy drilling program coupled with the very large recent investments in offshore acreage, there is a varying impact on the comparison of net income from year to year, and consequently the comparison of cash income, that is net income plus write-offs and amortization, at times provides a better indication of operating performance. For 1955, cash income of $314,561,000, including the non-recurring profit of $6,115,000, represented an increase of $38,207,000, or 14% over 1954.

Dividends were maintained at the quarterly rate of 50 cents per share and the payments for the year aggregated $55,066,000.

Capital expenditures amounted to $271,347,000, or $34,407,000 above 1954. The principal factors in this increase were the completion of a new refinery and the purchase by Shell Chemical Corporation of synthetic rubber facilities from the Government. Included in capital expenditures is a total of

$153,699,000 covering acquisition of leases and exploratory and development drilling for new crude oil and gas reserves. This figure does not include $56,200,000 charged against current income for exploration work essential to the maintenance and improvement of our position in this vital phase of operations. Capital expenditures for the Oil Industry are expected to be maintained at the recent high level, and this condition will also be reflected in our own picture for 1956.

Net working capital, that is the amount by which current assets exceed current liabilities, totaled $231,255,000 at December 31, 1955, an increase of $52,675,000 from the end of 1954. Cash and Government securities, after funding the current year's Federal tax provision, totaled $96,014,000 as compared with $56,714,000 at the beginning of the year. As mentioned in the last report, the Company borrowed $75,000,000 in February 1955.

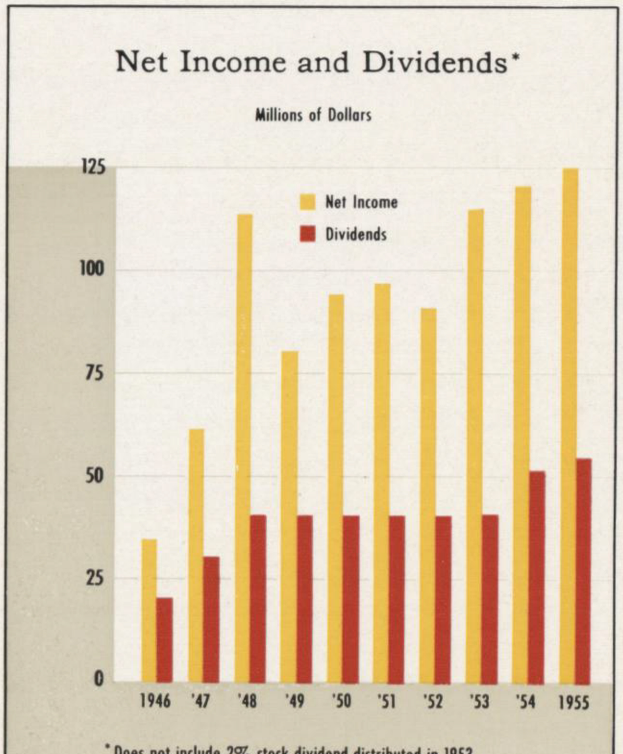
The Company pursued its policy of aggressive search for new oil reserves throughout the year, and continued to develop previously discovered fields in accordance with the best principles of sound engineering. Particularly noteworthy was the success of our offshore drilling in the Gulf of Mexico where, at the end of the year, we were producing about 33,500 barrels per day.

Additions to underground reserves of crude oil substantially exceeded the total production for the year and were the result of new discoveries, extensions to existing fields, and upward revisions of previous estimates. The largest increases in reserves were made at South Pass Block 24, South Pass Block 27, Bayou Sorrel, and Lake Washington fields in Louisiana, Pine field in Montana, and Coalinga field in California.

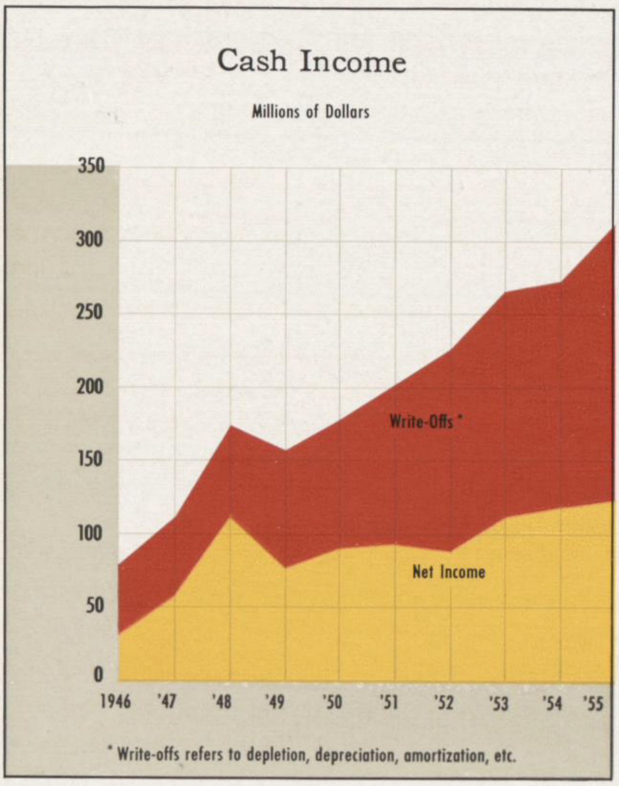
With the completion of the refinery at Anacortes, Washington, together with minor improvements at the recently enlarged Norco Refinery, the total rated crude oil processing capacity of our six refineries was increased from 504,000 to 561,000 barrels per day at the end of the year. For most of the year, the refineries operated approximately at capacity.

As mentioned above, sales revenues reached an all-time high. The volume of refined product sales was also a record, the total amounting to 198,200,000 barrels, or 85% over 1946, the first year of the post-war decade. This represents an average annual growth of 7.1% and compares with the industry average of about 5.7%. The excellent acceptance enjoyed by our products is apparent.

Shell Chemical Corporation had the best year in its history. The new business arising from the acquisition of the synthetic rubber facilities, together with important increases in sales of most other chemical products, were responsible for this achievement. The out-


Net Income and Dividends*

*Does not include 2% stock dividend distributed in 1953.



look for the chemical business is encouraging.

The research phase of the Company's activities continued to receive the attention appropriate to this important work.

The Oil Industry in 1955 was characterized by a substantial increase in refinery runs under the stimulus of growing demand. The reserve refinery capacity built over the last few years in the interests of national defense, while making it possible to meet this need for expanded refinery operations, also at times caused a tendency toward excessive runs. Overall, however, stocks of most products remained in reasonable relationship to demand. The higher level of industrial and consumer demand experienced in 1955 appears likely to continue through 1956.

The various phases of the Company's operations in 1955, together with the financial statements, are outlined in greater detail in the appropriate sections of the accompanying report. In concluding, we should like to emphasize that the continued satisfactory progress in the affairs of the Company was made possible only through the loyalty and industry of its employees. We are grateful to them for their efficient services, and welcome this opportunity to record our appreciation for the whole-hearted performance of their duties throughout the year.

Francis J. Hopwood
Chairman of the
Board of Directors

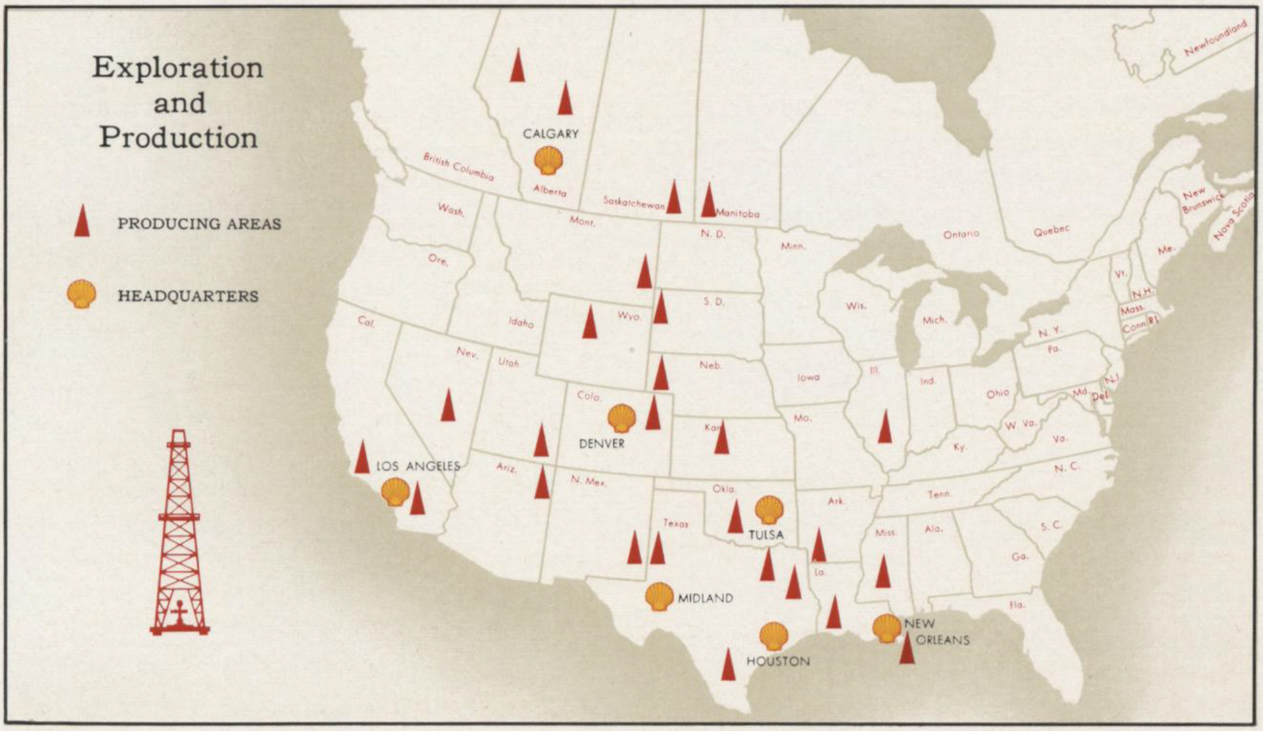
H. S. M. Burns
President

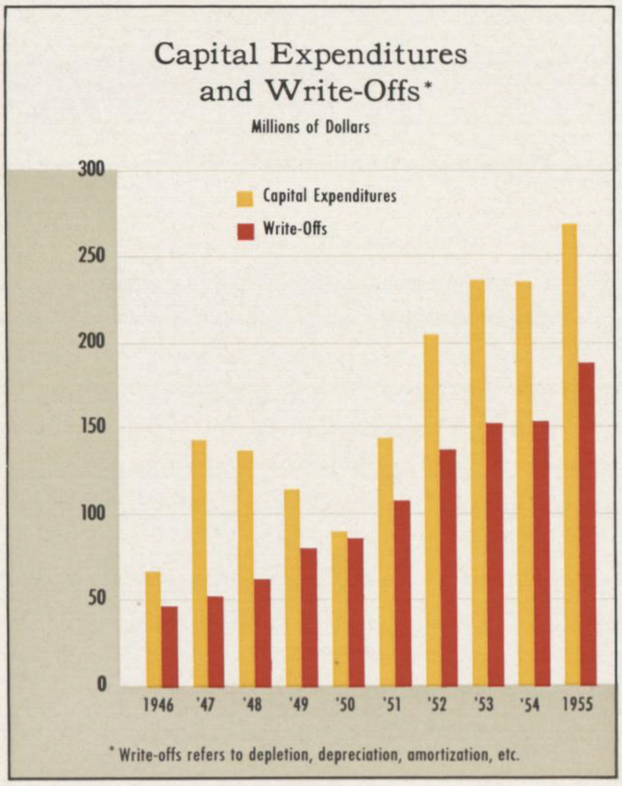
Report on 1955 Operations

Exploration and Production

THE COMPANY'S oil and gas fields in the waters off Louisiana are proving to be of substantial proportions, and a drilling program was conducted throughout the year which resulted in steadily increasing production in that area. At the end of the year we were producing 33,500 barrels of crude oil per day in the Louisiana offshore out of a total industry production of 93,300 barrels per day. Our offshore acreage holdings in the Gulf of Mexico for future developments were expanded by the purchase of substantial new lease blocks put up for sale by the Federal and state governments. Joint exploratory drilling with another company is about to start on an unusually large block of 103,000 acres located some 60 miles off the southeast coast of Texas.

Interesting new oil field discoveries were made by wildcat wells drilled in other parts of the United States. Among the more promising of these are Saticoy and Posuncula in California, Burrwood and Cote Blanche in Louisiana, and Pennel and Gas City in Montana. The latter two fields lie in the Williston Basin along the Baker Glendive Anticline and the





Capital Expenditures and Write-Offs*

* Write-offs refers to depletion, depreciation, amortization, etc.

building of the Butte Pipe Line, referred to later, provided a much needed pipe line outlet thus enabling us to accelerate the development of our extensive properties and thereby increase production in this area. Interesting gas field discoveries were made at Loisel in south Louisiana and at Oblate in south Texas. Altogether we drilled 207 exploratory wells during the year, of which 52 obtained oil or gas. The comparable figures for the previous year were 211 and 51.

Some additional drilling has been done near our discoveries of 1954 in Nevada and southeastern Utah, but at the present it does not look as though they are going to be commercially important.

Our production of crude oil was held down by proration particularly in Louisiana and Texas, but new discoveries and successful development drilling resulted in a new record high production of 301,000 barrels per day in December. The average net crude oil production for the year was 278,000 barrels per day as compared with 268,000 barrels in 1954. The higher rate of production during the last quarter of the year was aided by the higher production allowables fixed by State Conservation authorities. The number of development wells completed during the year was 692. This included 631 oil and gas producing wells and 61 unsuccessful wells. The comparable 1954 figures were 785 total wells, 720 producers and 65 non-producers.

In addition to concluding a number of relatively small sales to interstate gas pipe lines from several Gulf Coast fields, Federal Power Commission certification was received toward the close of the year for an important sale of gas produced from the South Pass, Main Pass, and Halter Island areas of the Louisiana Gulf Coast. This sale amounts to about 50 million cubic feet daily of gas, most of which will be supplied by gas produced in conjunction with crude oil, and it is expected that actual sales will start shortly.

The principal gas handling facilities completed during the year were the Iowa Plant expansion in Louisiana, a new gas gathering and compression plant in the Russell Field of West Texas, and extensions of the gathering systems supplying the Wasson Plant in West Texas, the Mt. Hope Plant in Colorado, and the Long Beach and Ten Section Plants in California to tie in additional supplies of casinghead gas.

In Canada, where exploration and production operations are carried on in a joint venture with a subsidiary of Canadian Shell Limited, the Midale field in Saskatchewan was further extended. Drilling in this area of southeastern Saskatchewan also resulted in additional discoveries geologically similar to Midale. An equity of about 6% was acquired in the Westspur Pipe Line Company which is constructing a pipe line to connect Midale with the Interprovincial Pipe Line System, and development of the Midale field will now proceed more rapidly. An equity of about 10% was also acquired in the Peace River Oil Pipe Line Company, organized to construct and operate a 106-mile crude oil pipe line from the Sturgeon Lake field in Northwestern Alberta south to connect with the Trans Mountain Oil Pipe Line. Another favorable development in Canada was the start of construction on the West Coast

Transmission gas pipe line from the Peace River area to the Pacific Northwest, which will provide an outlet for gas of which we have substantial proven reserves in that region.

Manufacturing

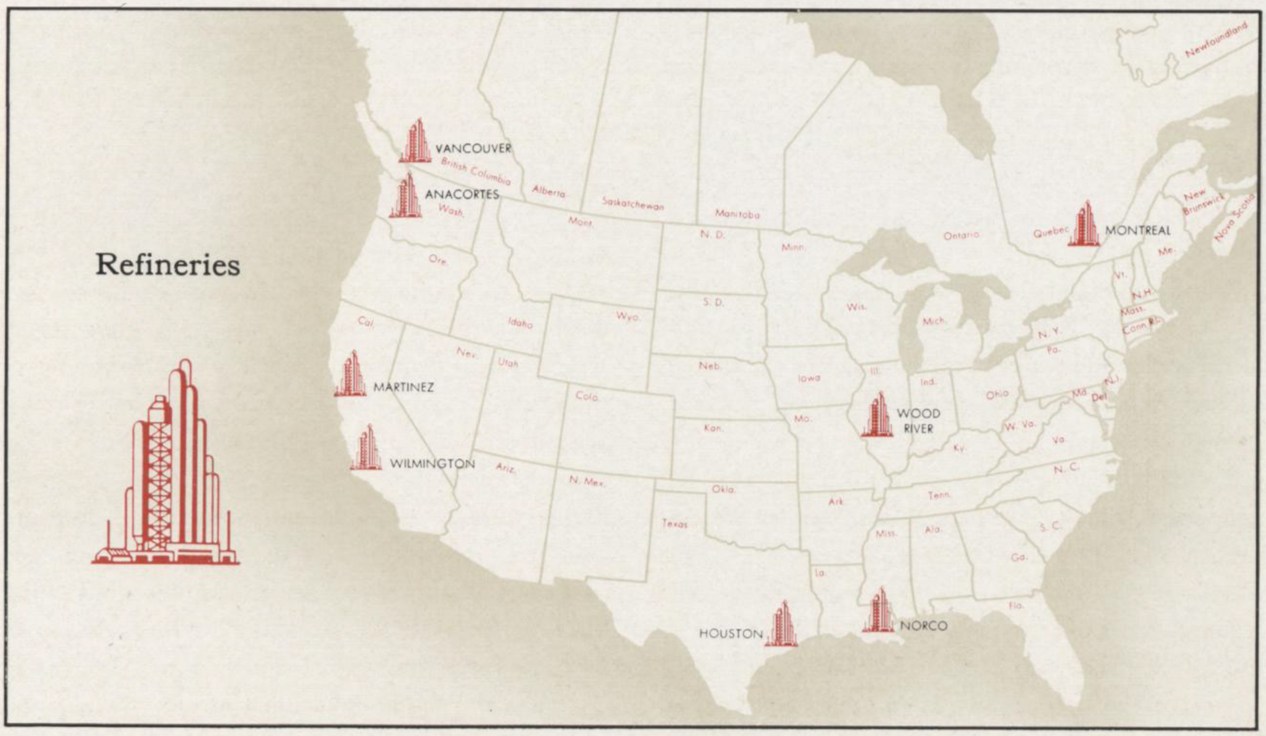
In 1955 crude oil runs to distilling units at the Company's refineries totaled 168,896,000 barrels, representing an increase of 11,634,000 barrels or 7% over 1954.

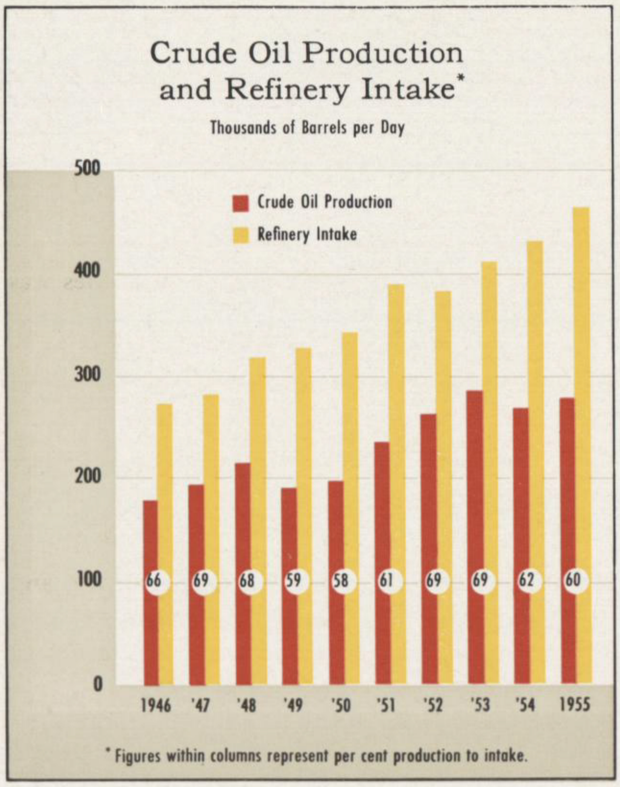
The new refinery at Anacortes, having a design crude oil capacity of 50,000 barrels per day, was completed and brought on stream according to schedule. Crude oil distillation operations were started in September and other facilities were placed in operation later in the year. In addition to the crude oil distillation unit, the process units installed at Anacortes include catalytic reforming, catalytic cracking with feed preparation, gas recovery and polymerization units. The catalytic cracking unit embodies advanced developments arising from Shell's research. The first shipment of products from Anacortes was made late in October.

New facilities were placed in operation at the Martinez Refinery to manufacture an improved motor oil additive designed to enhance the anti-wear characteristics of Shell X-100 motor oil and other lubricating oils we manufacture.

Various plant revisions were effected during the year at several of the refineries to improve yield and quality of products. These included extensive catalytic cracking revisions at the Wood River Refinery and conversion of a thermal cracking unit for manufacture of catalytic cracking feed stock at the Norco Refinery.

In order to maintain our leading position in gaso-





line quality, a new catalytic reforming unit with feed desulfurization facilities was constructed at the Houston Refinery. Similar catalytic reforming extensions are being provided at the Wood River Refinery with completion scheduled for late 1956.

At the Wood River Refinery, main office and control laboratory building extensions were occupied in 1955. A program to modernize maintenance shops is progressing with completion of one large shop during the year and a second under construction. Also work is in progress on a major extension to the research laboratory.

A project to furnish industrial water from the San Jacinto River was completed at the Houston Refinery. This is a cooperative industrial-municipal program to alleviate a declining ground water supply and to check a serious soil subsidence problem in the area.

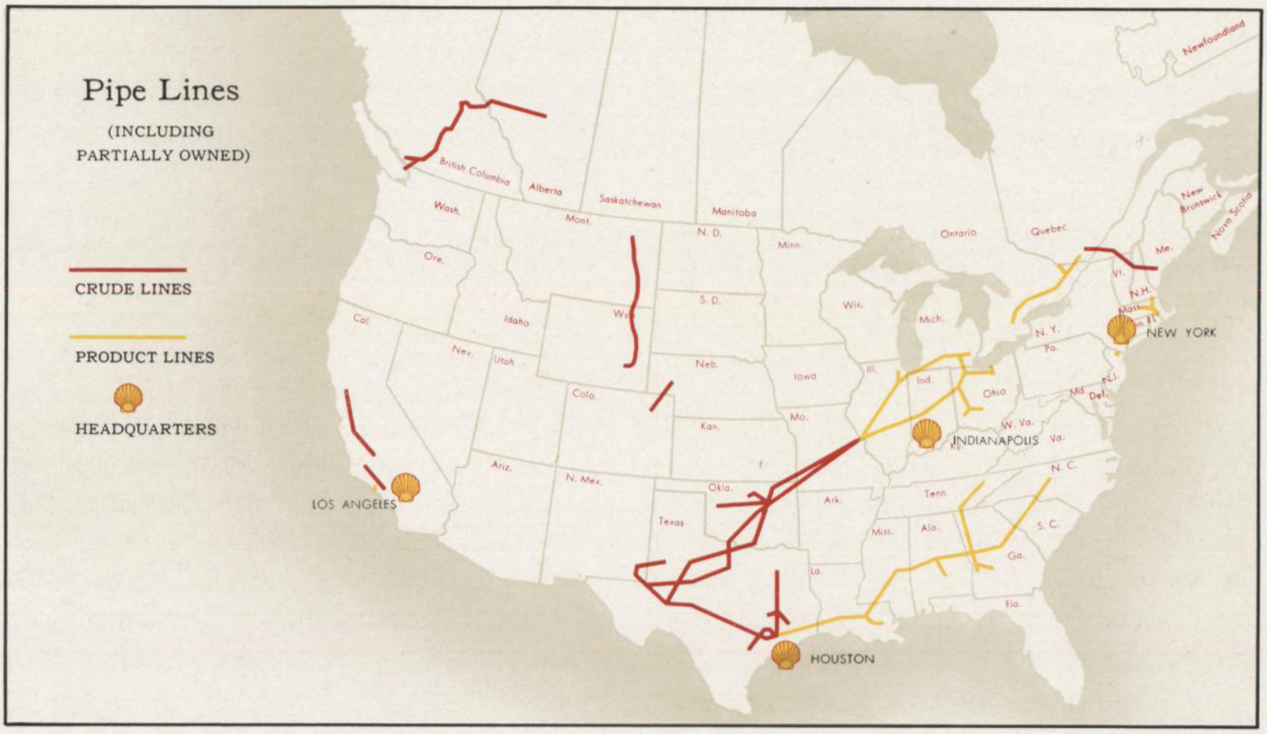
Our motor fuels have been continuously tailored to deliver top performance in the new and demanding designs of engines and domestic heating oils have been given improved storage stability while our Shell X-100 motor oils have greater ability to combat the more severe lubrication requirements of the newer automotive engines. Among the new products developed are a line of fire-resistant hydraulic fluids for industrial use and a new multi-purpose grease. The latter fulfills a need for a lubricant for high temperature operating conditions.

Transportation

During 1955 the continued growth of the Company was reflected in further improvement of its transportation position, both by construction and acquisition of new facilities and by increased efficiency.

To provide an adequate outlet for the crude oil production in the Williston Basin, the Butte Pipe Line Company, in which we own a 60% interest, was formed to construct a 500-mile pipe line from the eastern Montana area of the Williston Basin south through Wyoming, to connect at Laramie and Guernsey with other pipe line systems that run to the refining centers around Denver, St. Louis and Chicago. Extensions to terminaling and barge loading facilities are under construction at South Pass, Louisiana, to handle the increasing production in that area.

Inland Corporation, which operates a products pipe line system in Ohio, completed the expansion program mentioned in our last report and also was reorganized in order to enlarge the scope of its operations to include Akron and Cleveland. An existing pipe line system from Fostoria to Akron and Canton was acquired, and new sections of line to



Cleveland were constructed. The latter will provide economic year-round delivery of products and eliminate dependence upon water transportation which has to be discontinued in the winter months. In effecting the reorganization of Inland Corporation in its enlarged operations, the ownership equities were adjusted and we now own a 30% interest.

To provide capacity to meet the demands of shippers, the Plantation Pipe Line Company, in which we own approximately 24% interest, is proceeding with a $23,000,000 expansion program that will include a substantial increase in its main line capacity between Baton Rouge, Louisiana, and Helena, Alabama. A third line, 18 inches in diameter, will be laid between these two points paralleling the two existing lines, raising capacity from 245,000 barrels per day to 304,000 barrels per day.

To cope with the growth in our sales, terminal storage aggregating 1,350,000 barrels was constructed at Niles, Michigan on the Wolverine Pipe Line, and at Dayton, Ohio on the Inland Pipe Line System; 525,000 barrels of this new tankage will be used for accumulation of heating oils during the summer to meet peak winter demands. One million barrels of tankage was erected at the Houston Refinery. A total of 167 acres of land was purchased at various locations to permit future terminal expansion and development.

The success of the experiment, mentioned in last year's report, of lining tank cars with Shell Chemical Corporation's EPON resin, with a view to better maintenance of product quality and reducing cleaning costs, resulted in extending the installation of such linings to more cars.

To achieve further efficiencies in the operation of our products pipe lines, some of the operating functions formerly handled in New York have been decentralized to a new general field office that is being established at Indianapolis, which is well located in relation to the pipe line systems.

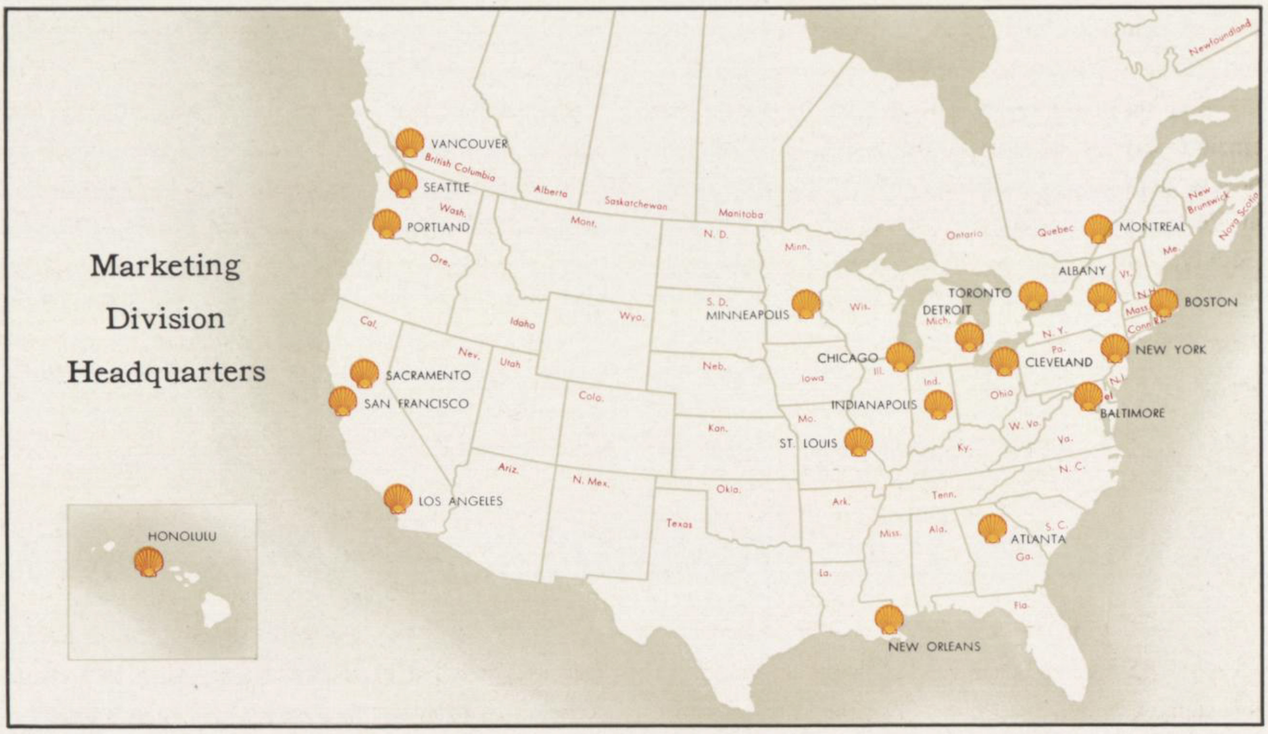
Marketing

The demand for refined petroleum products in 1955 increased approximately 8% over 1954, which was well above the increase of 2% that occurred in 1954 over 1953. The Company secured its full share of this increment in business and, as a result, enjoyed a record-breaking sales year with an increase in sales of 11%.

Market conditions were extremely competitive throughout the year, and in consequence from time to time price wars flared up in certain areas. It was necessary to give the greatest possible assistance to our dealers through vigorous merchandising and advertising programs featuring the benefits the motorist obtains from using Shell Gasoline with TCP and the new premium grade Shell X-100 motor oil. The acceptance accorded these products has been very gratifying and our sales have benefited correspondingly.

Sales of all grades of fuel showed substantial increases over the previous year. The expansion in industrial activity and the colder winter were largely responsible for this result. Our sales of asphalt have increased at a rate somewhat greater than the industry growth. The anticipated Federal and state highway development programs, so essential to cope with the growing automobile population, should provide an expanded demand for asphalt for some years ahead.

Our position as a supplier of aviation products continues pre-eminent and sales in 1955 were at a peace-time record. The expansion in air travel promises a constant increase in demand for these specialized products. The programs of the various airlines toward conversion to new turbine powered aircraft indicates a considerable market for turbine fuel, and we have taken steps to be an effective sup-



plier also of this fuel. We already supply the only domestic airline now operating turbo-propelled aircraft.

During the year physical facilities were further expanded and modernized in order to reduce product handling costs, and new techniques were developed for the storage and handling of aviation fuel, including special airport refuelers designed exclusively for this service.

In the years following World War II, we built up a substantial distribution system of liquefied petroleum gas in the Middle Western markets under the brand name of "Shellane". There were, however, certain disadvantages to carrying on this business as a direct operation, therefore in December 1955 we sold substantially all of our Shellane marketing equipment to the National Propane Corporation. This firm, an experienced marketer in this field, is continuing to market under the Shellane brand name, and a suitable long-term contract to supply it with liquefied petroleum gas in bulk was concluded as part of the transaction.

The Federal Trade Commission has filed a complaint against the Company and Firestone Tire and Rubber Company, charging that the arrangement under which the Company promotes the sale of Firestone's tires, batteries and accessories to its dealers for a commission is an unfair competitive practice under the Federal Trade Commission Act. Similar complaints have been filed against two other oil companies and two other tire manufacturers. The Commission is thus challenging what has been an open and recognized merchandising practice in the tire industry for over twenty years under a statute which has been in effect over twice that long.

Shell Pipe Line Corporation

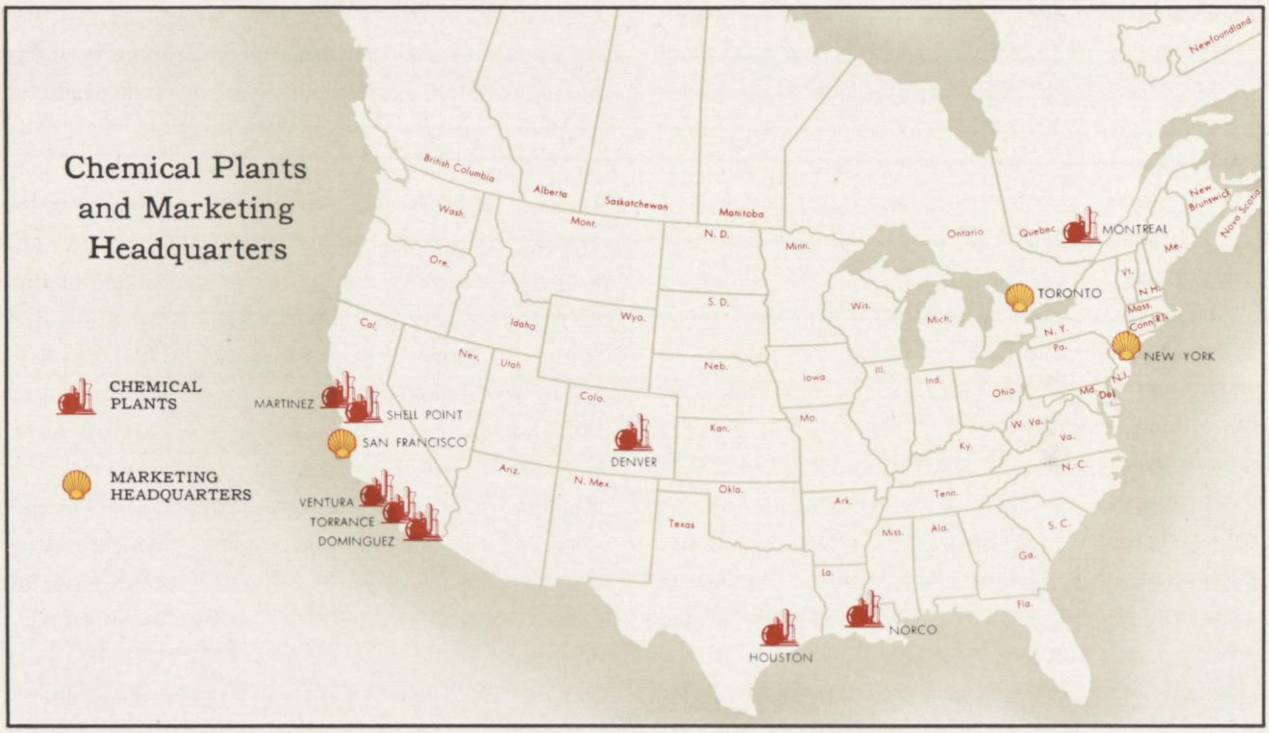
THE TRAFFIC handled by Shell Pipe Line Corporation during the year 1955 increased over 1954 to the extent that an increase in operating revenue of approximately 9% was achieved. Extensions to gathering systems in the more important producing areas were somewhat above normal. Major extensions to new producing areas included 47 miles of new lines to the Brahaney and West Ropes fields in West Texas. Purchase of pipe line facilities in Lea County, New Mexico, and in Winkler and Ward Counties, Texas, and in the Tokio Field in Yoakum County, Texas, added 210 miles of extensions to our system.

In the interest of improving services and providing minimum cost transportation from important refinery centers, a 65-mile 12-inch products pipe line was constructed from the Norco Refinery to the Plantation Pipe Line terminal at Baton Rouge, Louisiana. This line was placed in operation in June and is an important link in the delivery of refined products to the southeastern states.

Shell Pipe Line contracted to design, build, and operate the trunk pipe line system for the Butte Pipe Line Company. Construction work was started in July and first shipments were made early in November. The 35-mile segment of 12-inch line built by Shell Pipe Line in 1954 for handling production from the Pine and Cabin Creek fields to tank car loading racks at Glendive, Montana, was sold to Butte Pipe Line Company and is now a part of the Butte System.

Shell Chemical Corporation

SALES OF chemical products in 1955 were the highest in the Corporation's history. The largest percentages of increase dollar-wise over 1954 were in sales of resins and plastics and agricultural chemi-



cals. Synthetic rubber sales also contributed to the total gain over 1954. Sales of agricultural ammonia during 1955, however, were adversely affected by the very keen competition which developed in 1954 as a result of the over-production of ammonia. This condition is expected to continue during 1956.

On April 25, 1955, following approval by Congress of our purchase agreement signed in December 1954 with the Rubber Producing Facilities Disposal Commission, we took possession of the synthetic rubber facilities at Torrance, California, previously owned by the Government. These facilities produce butadiene and styrene, raw materials for synthetic rubber, and combine these to make about 20 different types of copolymers, some solid and some in liquid latex form, known generally as GR-S type synthetic rubber.

Demand for rubber during the year was heavy, and the facilities were operated at their maximum capacity to produce rubber in the range of types then being made. Modifications are under way to enlarge and improve various parts of these facilities with the object of equipping the plant to produce more diversified types of rubber with improved quality for all types. These additions are expected to increase materially the effective capacity of the plant to produce rubber in the broad range of types demanded by the market. Construction is also being undertaken of new facilities at Torrance which will produce cold high solids latex, an important ingredient of foam rubber. While the equipment being added will in normal times serve to improve quality and diversity, it would, in time of national emergency, assist the plant in producing substantially more of the essential basic rubber types than has hitherto been possible.

A new research group is being established at Torrance to work in the field of rubber technology. This program together with that at Shell Development Company will enable us to maintain a position of technical leadership in a field which is being given intensive scientific study.

Sales of agricultural chemicals in 1955 were higher than in any prior year. The continuing world-wide acceptance for Shell's insecticides, Aldrin, Dieldrin, Endrin, and its soil fumigant D-D, resulting from their successful fight against many insect scourges, contributed to this achievement. Effective market development programs and extended label acceptance by the United States Department of Agriculture for new uses of the chemicals also helped sales growth. Completion of the enlargement of manufacturing facilities at Denver, Colorado, during the year made available increased production of Endrin to meet the growing demand for this insecticide.

The new plant for the production of intermediates for glycerine and epoxy resin manufacture and D-D soil fumigant commenced operations at Norco, Louisiana. At the Houston Chemical Plant, facilities for the manufacture of glycerine and epoxy resins were also expanded.

At the Norco Chemical Plant construction was started late in the year on new hydrogen peroxide manufacturing facilities utilizing a new process invented and developed by Shell Development Company. Hydrogen peroxide is currently used in the manufacture of paper and textiles as a bleaching agent and in many chemical applications as a reaction agent.

Early in 1956, construction of a plant for the manufacture of urea was started at Ventura, California. The addition of urea facilities will enable us to offer western farmers a wider variety of high nitrogen content fertilizers. Urea, which has the highest nitrogen content of all solid fertilizers, is also used as an intermediate in the manufacture of various resins and plastics and as a livestock feed supplement.

Construction of new facilities for the manufacture of methyl ethyl ketone at the Norco Chemical Plant has recently been commenced, with completion being tentatively set for early 1957. This product is used extensively in the formulation of nitrocellulose base lacquers and lacquer thinners, vinyl resin solutions, in the production of chemical intermediates and for the dewaxing of lubricating oil.

Shell Development Company

Activities at the Emeryville Research Center continued to concentrate on developing new types of oil and chemical products, while improving present products and increasing the efficiency and economy of manufacturing processes now in use.

Basic knowledge of the behavior of engine fuel fractions and additives has enabled better tailoring of fuels to the stringent requirements of new engine design. New additives and refining processes are being developed to meet these needs. The fundamentals of lubricant behavior are being studied and the results applied in new approaches to engine oils, industrial oils and greases.

Leads to better processing of heavy oil stocks have come from basic studies of oil composition and properties. Much attention has been given to hydrogenation and dehydrogenation as refinery processes, and several new types of catalyst to promote the desired improvements in oil structure have been brought to light.

New insight into the behavior of refinery processing equipment has come from tests in plant units using radioactive tracers which "tag" the process stream or the catalyst. Such information leads to improvements in equipment design and plant operation.

The development of three new chemical processes has been completed. The first two yield hydrogen peroxide and acrolein, and the third yields glycerine as a derivative of these. Many other derivatives of hydrogen peroxide and acrolein are under study to diversify the potential offtake of these chemicals.

EPON resins continue under intensive study and new forms are being produced which show excellent properties under extreme conditions of use. Certain forms show promise for the creaseproofing and shrinkproofing of textiles and are under field evaluation.

In the field of rubber, a long-standing research interest has existed through our development work with butadiene, DUTREX and IONOL. With the acquisition by Shell Chemical Corporation of complete synthetic rubber manufacturing facilities at Torrance, a long-range supporting program has been initiated at Emeryville, with emphasis on rubbers obtained by new combinations of monomers and new methods of catalysis.

At the Exploration and Production Research Division, a new method of continuous electrical profiling for offshore exploration has been developed, and the preliminary field tests are very encouraging. Seismic model experiments have led to results applicable to the improvement of record quality. The engineering requirements for today's methods and equipment continue to be more exacting with the increasing depth of wells and with more interest in marine locations. To meet these needs, an Engineering Department has been formed to pursue immediate and long-range research in the exploration and production activities.

In connection with the general research program on the porosity and permeability of carbonate rocks, studies of recent sediments have been undertaken. Work on the chemistry of clays has assisted in the development of improved methods for estimating the hydrocarbon content of underground formations by means of electrical logging.

During 1955 the Agricultural Research Division continued its efforts on the basic program for the development of biocides to cover broadly the agricultural field. Several promising new insecticides, fungicides, herbicides, and soil fumigants have been screened in the laboratory and are in preliminary field trials. Two of these have reached the stage where commercial manufacture may be undertaken late in 1956. One is an improved nematocide; the other is a phosphate type insecticide. Extensive field tests with these insecticides are being undertaken by Shell Chemical Corporation.

Shell Oil Company of Canada, Limited

IN 1955 the Canadian economy regained its momentum following a slight check in the rate of expansion in the previous year. The Oil Industry enjoyed its share of this overall growth and the consumption of petroleum products reached record levels. The rapidly expanding Canadian oil industry continued to attract new capital investment in all phases of operations, with the result that intense competition in the marketing of oil products prevailed generally. Shell of Canada's sales in 1955 were at a record level.

During 1955 the amount of crude oil processed at Montreal East Refinery was also a record. The expansion program, which commenced in 1954, continued and extensions to catalytic cracking, gas recovery and vacuum flashing units were completed. The construction of new crude distillation facilities, a catalytic reformer and a hydrodesulphurization unit is still in progress, with completion of the full program scheduled for mid-1956. At the Vancouver Refinery, through-put increased substantially and a new catalytic reforming unit was completed early in 1956.

Sales of chemical products increased, and to keep pace with the growing demand the Chemical Plant at Montreal East, producing isopropyl alcohol and acetone, operated at maximum capacity.

At Jumping Pound, Alberta, production and sale of natural gas and sulphur increased considerably over 1954.

The pipe line systems in which Shell of Canada has interests increased their through-puts in 1955. Trans Mountain Oil Pipe Line Company, which transports crude oil from Edmonton, Alberta, to refineries at Vancouver and in the State of Washington, was carrying in excess of 100,000 barrels per day by the year-end. This is an increase of approximately 100% over 1954. To handle the additional volume, a third pumping station, near Edson, Alberta, was placed in operation. The facilities of the Portland/Montreal crude oil pipe line were used to capacity and new pumping units are being added to increase capacity from 190,000 barrels to approximately 210,000 barrels daily. The Trans-Northern products pipe line operated at maximum capacity transporting petroleum products from refineries at Montreal to eastern and central Ontario markets.

Personnel and Industrial Relations

IN FEBRUARY several oil companies announced a 4% general wage and salary increase effective March 1, 1955. As soon as a clear pattern along these lines had been established in the Oil Industry, we announced a similar increase.

Late in the year several changes were made in the Company's retirement program. The most significant are that all employees, excepting officers and a designated group of senior administrative management staff, now have the option to continue in active service beyond the normal retirement age of 60 until age 65 (age 60 for women), subject of course to the usual conditions of employment, and that in computing Social Security deductions from Shell pensions the maximum deduction is $85.00 per month.

Based upon an analysis of experience under our Hospital-Surgical-Medical Program since its inception on September 1, 1953, a more rounded program was developed and announced to employees generally during December 1955, and became effective January 1, 1956.

The continued growth in our operations is reflected in the increase in number of employees during the year. At the year-end there were 38,845 employees on the payroll, or 10% more than at the beginning of the year. Total wages and salaries rose to $228,662,000, or 15% over 1954, as a result of the increase in employment and the general wage and salary increase mentioned above.

During the year 399 employees retired on pension, making a total of 3,813 pensioners retired under the Shell Pension Plan since its adoption in 1938.

Executive

IN JULY Mr. H. L. Curtis was appointed Vice President—Public Relations. Mr. Curtis joined the Company in 1923 and has served mainly in the marketing side of our activities. For the past 8 years he has been in charge of the Company's public relations work.

At the end of the year Mr. C. E. Davis, Vice President—Refining, retired after 38 years of service with the Company. Also, Mr. W. A. Baker, Vice President and Treasurer, and Mr. D. H. Lewis, Vice President—Engineering, of Shell Pipe Line Corporation, retired on reaching retirement age. Mr. Baker had served a total of 34 years in various phases of the Company's operations, while Mr. Lewis' service of 26 years was spent entirely with Shell Pipe Line Corporation. Earlier in the year, Mr. A. E. Groff, Secretary of Shell Pipe Line Corporation, retired after completing 31 years of service.

Mr. C. C. Combs, who has spent some 32 years in various phases of the Company's treasury activities, was appointed Vice President and Treasurer of Shell Pipe Line Corporation, and Mr. W. J. Williamson who has been with the Company's legal staff for some 14 years was appointed Secretary of that corporation.

Financial Statements and Statistical Information

SHELL OIL COMPANY AN

Statement of Fi

ASSETS

	December 31, 1955	*December 31, 1954*
CURRENT ASSETS:		
Cash	$ 61,398,414	$ 36,124,172
United States Government short-term securities, at cost, exclusive of amounts applied in reduction of federal tax liability	34,615,546	20,590,324
Receivables, less allowance for doubtful accounts: 1955—$3,346,000; 1954—$3,222,000	144,207,433	115,208,386
Owing by affiliated companies	5,014,051	5,003,978
Inventories (Note 2):		
Crude oil, refined and manufactured products	135,612,276	133,586,061
Materials and supplies	41,053,421	31,979,415
TOTAL CURRENT ASSETS	421,901,141	342,492,336
INVESTMENTS (Note 3):		
Investments in and advances to affiliated companies, at cost	30,057,038	36,668,518
Other investments, at cost	4,399,865	4,518,891
TOTAL INVESTMENTS	34,456,903	41,187,409
PROPERTIES, PLANT AND EQUIPMENT, at cost (Note 4)	2,056,285,559	1,825,159,054
Less accumulated depreciation, depletion and amortization	1,327,769,415	1,182,902,682
NET PROPERTIES, PLANT AND EQUIPMENT	728,516,144	642,256,372
OTHER ASSETS AND PREPAID EXPENSES:		
Other notes and accounts receivable and sundry deposits	4,480,136	3,519,032
Prepaid insurance, taxes, rentals and other expenses	17,607,789	12,431,004
TOTAL OTHER ASSETS AND PREPAID EXPENSES	22,087,925	15,950,036
TOTALS	$1,206,962,113	$1,041,886,153

UBSIDIARY COMPANIES

ncial Condition

LIABILITIES

			December 31, 1955	December 31, 1954
CURRENT LIABILITIES:				
Accounts payable			$ 128,475,178	$ 106,534,228
Owing to affiliated companies			242,050	2,143,147
Long term debt due within one year, including in 1955 note of a subsidiary company for $4,824,000 payable to bank			10,074,000	5,887,000
Wages, interest and miscellaneous accruals			16,910,155	14,717,110
Estimated federal taxes on income, less U. S. Government securities held for payment of taxes: 1955—$63,500,000; 1954—$60,000,000			25,078,636	25,917,877
Other taxes			9,866,421	8,713,079
TOTAL CURRENT LIABILITIES			190,646,440	163,912,441
LONG TERM DEBT (Note 5):				
2½% Debentures due 1971			110,207,000	115,618,000
Serial notes due 1957 to 1967			91,250,000	21,500,000
TOTAL LONG TERM DEBT			201,457,000	137,118,000
SHAREHOLDERS' INVESTMENT				
CAPITAL:				
Common stock (Note 6)			206,498,070	206,100,570
	1955	*1954*		
Shares authorized	40,000,000	40,000,000		
Par value per share	$7.50	$7.50		
Shares issued	27,533,076	27,480,076		
Amount in excess of par value			31,697,688	29,583,688
TOTAL CAPITAL			238,195,758	235,684,258
EARNINGS EMPLOYED IN THE BUSINESS:				
Balance at beginning of year			505,171,454	435,570,051
Net income for year			125,531,950	121,126,546
Equity in prior years' earnings of subsidiary company consolidated			1,025,663	—
			631,729,067	556,696,597
Dividends paid in cash			55,066,152	51,525,143
Balance at end of year			576,662,915	505,171,454
TOTALS			$1,206,962,113	$1,041,886,153

See notes to financial statements, pages 23 and 24

SHELL OIL COMPANY AND SUBSIDIARY COMPANIES

Statement of Income

	Year 1955	*Year 1954*
SALES OF PRODUCTS AND OTHER REVENUES	$1,484,069,013	$1,312,059,959
OPERATING CHARGES:		
Costs and expenses (other than those shown below)	971,681,543	857,974,496
Administrative, selling and general expenses	144,914,548	128,682,016
	1,116,596,091	986,656,512
Depreciation, amortization, retirements and miscellaneous write-offs (excluding oil lands and leases)	91,103,889	74,464,405
Amortization (100%) of intangible development costs	75,641,883	65,667,083
Depletion, amortization and surrenders of oil lands and leases	22,283,085	15,096,153
	189,028,857	155,227,641
TOTAL OPERATING CHARGES	1,305,624,948	1,141,884,153
INCOME FROM OPERATIONS	178,444,065	170,175,806
OTHER INCOME AND CREDITS	14,420,065	14,691,086
TOTAL INCOME AND CREDITS	192,864,130	184,866,892
INTEREST ON LONG TERM DEBT	5,446,662	3,740,346
	187,417,468	181,126,546
ESTIMATED FEDERAL TAXES ON INCOME, excluding $1,400,000 shown below	68,000,000	60,000,000
INCOME BEFORE SPECIAL CREDIT	119,417,468	121,126,546
PROFIT ON SALE OF SHELLANE ASSETS, less $1,400,000 estimated federal income taxes thereon	6,114,482	—
NET INCOME FOR YEAR	$ 125,531,950	$ 121,126,546

See notes to financial statements, pages 23 and 24

Notes to Financial Statements

FOR THE YEAR 1955

1. **GENERAL:** The consolidated financial statements at December 31, 1955, include the accounts of all wholly-owned subsidiary companies. The accounts of three companies which became wholly-owned subsidiaries this year are included for the first time; their effect on the consolidated results is not significant.

Intercompany sales and profits of subsidiary companies consolidated have been eliminated in the consolidated accounts to the extent considered practicable.

2. **INVENTORIES:** As in prior years, the policy has been followed during the year ended December 31, 1955, of charging monthly to cost of goods sold the highest of inventory carrying value, current cost of production, or purchases. The inventories of crude oil, refined and manufactured products are carried at resulting average cost or market, whichever is lower. Inventories of materials and supplies are carried at average cost or less.

3. **INVESTMENTS:** Investments in and advances to affiliated companies include $28,601,993 in respect of Shell Oil Company of Canada, Limited, a fifty percent owned Canadian affiliate.

Shell Development Company, previously owned 65%, became a wholly-owned subsidiary consolidated at December 31, 1955. This occurred as the result of Shell Development Company reacquiring and retiring all shares of capital stock held by the owner of the other 35% interest.

4. **PROPERTIES, PLANT AND EQUIPMENT:** A summary of gross book value of properties, plant and equipment; related depreciation, depletion and amortization; and net book value, stated in thousands of dollars, follows:

	December 31, 1955				*Dec. 31, 1954*
	Gross Book Value	*Depreciation, etc.* *Total*	*%*	*Net Book Value*	*Net Book Value*
Oil lands and leases	$ 231,559	$ 109,317	47	$122,242	$106,982
Tangible development	289,274	164,397	57	124,877	107,258
Intangible development	495,530	495,530	100	—	—
Total properties for oil production	1,016,363	769,244	76	247,119	214,240
Pipe lines and other transportation facilities	177,644	90,042	51	87,602	91,191
Oil refineries and chemical plants	637,172	364,574	57	272,598	230,064
Marketing and miscellaneous	186,036	103,909	56	82,127	68,841
	2,017,215	1,327,769	66	689,446	604,336
Land	39,070	—	—	39,070	37,920
TOTALS	$2,056,285	$1,327,769	65	$728,516	$642,256

5. **LONG TERM DEBT:** At December 31, 1955, long term debt consists of the following:

	Due Within One Year	*Due After One Year*
Shell Oil Company		
Twenty-five year 2½% debentures due 1971, after deducting $5,347,000 of debentures held in treasury. Annual sinking fund payments of $5,000,000 are due in each of years 1956 to 1970, inclusive. (The debentures held in treasury are available for sale to the sinking fund agent)	$ —	$110,207,000
3% note payable to bank—payable $25,000,000 in each of the years 1958 to 1960, inclusive	—	75,000,000
Shell Pipe Line Corporation		
1.90% notes payable to banks—payable $1,000,000 in 1956	1,000,000	—
2.125% notes payable to banks—payable $1,750,000 in 1956, and $3,750,000 in 1957	1,750,000	3,750,000
3.20% notes payable to banks—payable $2,500,000 in 1956, and $2,500,000 in 1957	2,500,000	2,500,000
3.30% notes payable to banks and others—payable $1,000,000 in each of the years 1958 to 1967, inclusive	—	10,000,000
	$5,250,000	$201,457,000

Subsequent to December 31, 1955, Shell Pipe Line Corporation arranged to extend the maturity of certain of its notes payable to banks, and as a result thereof a total of $1,750,000 will mature in 1956.

6. **CAPITAL:** The common stock outstanding was increased by the issuance of 53,000 shares in exchange for the balance (50%) of the outstanding capital stock of Shell American Petroleum Company.

The amount in excess of par value of stock was increased in 1955, as follows:

Excess of the recorded value, being the market value at the date of the agreement, over the par value of $397,500 for 53,000 shares issued	$ 2,014,000
Par value of outstanding capital stock of Shell Canadian Exploration Company received as a contribution from Shell Caribbean Petroleum Company	100,000
Total addition during year	2,114,000
Balance at beginning of year	29,583,688
Balance at end of year	$31,697,688

7. **CONTINGENT LIABILITIES:** Shell Oil Company might be required under certain conditions to make payments under guaranty and other contractual arrangements entered into in connection with pipeline transportation of crude oil and refined products; the contingent liability under such arrangements does not exceed $24,700,000 at December 31, 1955.

Neither Shell Oil Company nor any of its subsidiary companies had any contingent liabilities, claims or guarantees at December 31, 1955, which, in the judgment of the Management, would result in the sustaining of losses which would materially affect their financial positions; nor were there any commitments of material amount under long term lease agreements, except those common to the petroleum industry.

Report of Independent Public Accountants

To the Shareholders of Shell Oil Company:

In our opinion, the accompanying statement of financial condition and related statement of income, together with the notes appended thereto, fairly present the consolidated financial position of Shell Oil Company and subsidiary companies at December 31, 1955, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of such financial statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

New York
March 8, 1956.

SHELL OIL COMPANY AND SUBSIDIARY COMPANIES

Source and Disposition of Funds

(Expressed in thousands of dollars)

	Total 1951–1955	*1955*	*1954*	*1953*	*1952*	*1951*
SOURCE OF FUNDS						
Income before federal income taxes	$ 903,359	$194,932	$181,127	$179,407	$143,873	$204,020
Depreciation, depletion, amortization, etc. charged against income	744,824	189,029	155,228	153,837	138,562	108,168
Long term debt additions or [retirements]	66,650	64,339	[6,087]	[6,102]	17,250	[2,750]
Other items (net)	5,786	188	5,082	1,024	2,140	[2,648]
Total	1,720,619	448,488	335,350	328,166	301,825	306,790
DISPOSITION OF FUNDS						
Capital expenditures:						
Drilling and production	645,620	153,699	145,736	133,439	116,958	95,788
Pipe lines and other transportation facilities	63,337	6,726	10,262	9,217	25,273	11,859
Oil refineries	226,632	51,963	55,312	66,981	37,796	14,580
Chemical plants	83,367	40,518	11,007	14,677	10,725	6,440
Marketing and miscellaneous facilities	78,898	18,441	14,623	13,398	15,389	17,047
	1,097,854	271,347	236,940	237,712	206,141	145,714
Dividends paid	228,029	55,066	51,525	40,614	40,412	40,412
For funding of federal income taxes	353,400	69,400	60,000	64,000	53,000	107,000
Working capital increase or [decrease] (excluding cash and government securities)	35,517	13,375	18,784	[10,172]	[5,155]	18,685
Total	1,714,800	409,188	367,249	332,154	294,398	311,811
Increase or [decrease] in cash and government securities available for general purposes	$ 5,819	$ 39,300	$ [31,899]	$ [3,988]	$ 7,427	$ [5,021]
CASH AND GOVERNMENT SECURITIES AT END OF PERIOD						
Available for general purposes		$ 96,014	$ 56,714	$ 88,613	$ 92,601	$ 85,174
For federal income taxes		63,500	60,000	64,000	53,000	107,000
Total		$159,514	$116,714	$152,613	$145,601	$192,174

SHELL OIL COMPANY AND SUBSIDIARY COMPANIES

Statistics

	1955	*1954*	*1953*	*1952*	*1951*
FINANCIAL					
Sales of products and other revenues:					
Refined products and services	$1,095,804,000	$1,000,316,000	$ 964,952,000	$ 872,107,000	$ 828,836,000
Chemical products	193,860,000	138,809,000	125,811,000	97,763,000	97,522,000
Crude oil	194,405,000	172,935,000	178,788,000	172,762,000	146,076,000
Total	$1,484,069,000	$1,312,060,000	$1,269,551,000	$1,142,632,000	$1,072,434,000
Net income	$ 125,532,000	$ 121,127,000	$ 115,407,000	$ 90,873,000	$ 97,020,000
Net income per share*	$4.56	$4.41	$4.20	$3.31	$3.53
Dividends paid per share*	$2.00	$1.87½	$1.50†	$1.50	$1.50
Cash Income (net income plus write-offs)	$ 314,561,000	$ 276,354,000	$ 269,243,000	$ 229,435,000	$ 205,188,000
Direct taxes—federal, state and local	$ 116,715,000	$ 100,995,000	$ 102,112,000	$ 89,730,000	$ 140,885,000
Taxes collected from customers for government agencies	$ 225,905,000	$ 210,028,000	$ 203,490,000	$ 176,568,000	$ 150,230,000
Capital expenditures	$ 271,347,000	$ 236,940,000	$ 237,712,000	$ 206,141,000	$ 145,714,000
GENERAL					
Shareholders	19,025	18,669	17,647	17,563	17,743
Dividends paid	$ 55,066,000	$ 51,525,000	$ 40,614,000†	$ 40,412,000	$ 40,412,000
Employees	38,845	35,275	34,660	33,583	31,319
Salaries and wages paid	$ 228,662,000	$ 199,022,000	$ 187,447,000	$ 170,141,000	$ 151,637,000
Company payments to provident fund and pension plan	$ 36,561,000	$ 32,586,000	$ 30,258,000	$ 26,375,000	$ 23,539,000
EXPLORATION AND PRODUCTION					
Net crude oil produced (daily average barrels)	278,000	268,000	286,000	263,000	236,000
Net crude oil produced (barrels)	101,581,000	97,694,000	104,268,000	96,099,000	86,221,000
Crude oil purchased (barrels)	144,415,000	126,464,000	117,173,000	113,331,000	116,475,000
Crude oil sold (barrels)	68,883,000	60,761,000	64,731,000	66,086,000	56,226,000
Natural gas produced (million cubic feet)	348,431	340,040	316,362	266,515	229,391
Wells drilled—oil	628	703	755	672	447
Wells drilled—gas	55	68	79	36	34
Wells drilled—dry holes	216	225	168	138	92
PIPE LINES					
Trunk pipe line mileage—crude oil (incl. partly-owned)	5,331	4,828	4,788	4,644	4,686
Trunk pipe line mileage—products (incl. partly-owned)	4,343	4,023	3,986	3,587	3,609
Gathering pipe line mileage—crude oil	2,083	1,978	1,932	1,821	1,775
Crude oil transported (barrels)	178,052,000	172,642,000	178,872,000	174,622,000	173,095,000
Products transported (barrels)	81,380,000	71,994,000	64,064,000	54,962,000	53,955,000
MANUFACTURING					
Crude oil distilling capacity (daily barrels)	561,000	504,000	479,000	429,000	397,000
Crude oil intake (daily average barrels)	463,000	431,000	412,000	382,000	389,000
Crude oil intake (barrels)	168,896,000	157,262,000	150,371,000	139,632,000	142,083,000
Products manufactured from natural gas (barrels)	12,465,000	11,407,000	10,717,000	10,545,000	10,308,000
MARKETING					
Refined products sold (barrels)	198,216,000	178,763,000	174,349,000	169,011,000	160,210,000
Chemical products sold (short tons)	943,000	732,000	688,000	617,000	618,000
Natural gas sold (million cubic feet)	294,046	285,928	222,822	176,613	146,160

* 1954 and prior years based on 27,480,076 shares. †Plus 2% stock dividend.